# Internal and External Determinants of Bank Profitability in Sri Lanka

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## Abstract

The bank provides a vital role as a financial intermediary for the development of countries' economy. Bank performance has significant impact on investment, growth as well as economic development. The purposes of this study therefore, are to: investigate the relationship between internal and external factors and bank performance; and identify which factor is most important for the banking industry in Sri Lanka.

This study employed following independent variables in order to examine the impact of internal and external factors on profitability of Sri Lankan banks: Bank Size (BS); Bank age (BA); Operating Cost (OC); Capital adequacy (CA); Liquidity Risk (LR); Total Deposit (TD); The real GDP growth (RGDP); and the yearly growth of householders' disposable income (YGHDI). Sample of this study consists with twenty licensed commercial banks and specialized banks and data were gathered from multiple sources such as annual reports, bank web sites and central bank web site over the periods from 2009 to 2017. The data were analyzed using multiple panel regression model. Results of the study indicated that the Bank Age, Total Deposit, Yearly Growth of Household Disposable Income has a positive relationship with bank profitability. Liquidity ratio, Capital Adequacy ratio and Operating Cost negatively effect to the performance of banks in Sri Lanka. In addition, Bank Size and GDP which have reported a positive insignificant relationship with ROA. Results concluded that both internal and external factors contributed on the performance of Sri Lankan Banks.

**Key Words:** Financial Intermediation; Bank Performance; Internal and External Factors, Sri Lanka